

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 90-528-S - ORDER NO. 91-447

JUNE 7, 1991

IN RE: Application of Midlands Utility,)
Inc., for an Increase in Wastewater) ORDER APPROVING
Rates and Charges for its Customers) RATES AND CHARGES
in Fairfield, Lexington, Orangeburg,)
and Richland Counties.)

This matter is before the Public Service Commission of South Carolina (the Commission) on the Application of Midlands Utility, Inc. (Midlands or the Company) for approval of a new schedule of rates and charges for its wastewater customers in Fairfield, Lexington, Orangeburg, and Richland Counties, South Carolina. The Company's December 10, 1990, application was filed pursuant to S.C. Code §58-5-240 (1976) and 26 S.C. Reg. 103-821 (1976).

By letter dated December 17, 1990, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by the Company's application. The Notice of Filing indicated the nature of the Company's application and advised all interested parties desiring participation in the scheduled proceeding of the manner and time in which to file the appropriate pleadings. The Company was likewise required to directly notify all customers affected by the proposed rates and charges. Petitions to Intervene were filed on behalf of Steven W. Hamm, the

Consumer Advocate for the State of South Carolina (the Consumer Advocate), and Richard W. Kirchdofer.

The Commission Staff (Staff) made on-site investigations of the Company's facilities, audited the Company's books and records, and gathered other detailed information concerning the Company's operations. The Consumer Advocate likewise conducted discovery.

A public hearing relative to the matters asserted in the Company's application was held on May 9, 1991, in the Hearing Room of the Commission at 111 Doctor's Circle, Columbia, South Carolina. Pursuant to S.C. Code Ann. §58-3-95 (Supp. 1990), a panel of three Commissioners.¹ William E. Booth, Esquire, represented the Company; Carl F. McIntosh, Esquire, represented the Consumer Advocate; and Gayle B. Nichols, Esquire, represented the Commission Staff. Mr. Kirchdofer did not appear at the hearing.

The Company presented the testimony of Charles B. Parnell, President of Midlands, and Mark J. Hendrix, a certified public accountant, to explain the services being provided by the Company, the financial statements and accounting adjustments submitted, and the reasons for the requested rates. The Consumer Advocate presented the testimony of Philip E. Miller. The Commission Staff presented the testimony of Charles A. Creech, Chief of the Water and Wastewater Department of the Commission, and Bruce Hulton, Public Utilities Accountant. A customer of Midlands, J.W. Hendrix, presented a statement to the Commission.

1. Commissioners Frazier, Arthur, and Butler were designated to hear and rule on this matter.

Based on its thorough consideration of the parties' testimony, Midland's verified application, and the applicable law, the Commission makes the following findings of fact and conclusions of law.

FINDINGS OF FACT

1. Midlands is a South Carolina corporation which provides wastewater service to 1,708 residential and commercial customers in Fairfield, Lexington, Orangeburg, and Richland Counties, South Carolina. Application.

2. The Company's present rates and charges were approved by Order No. 89-80, dated January 25, 1989, in Docket No. 88-237-S. Hearing Exhibit 6.

3. At present, the Company charges a \$17.00 monthly residential and commercial fee.² It also charges a \$250.00 non-recurring tap fee, a \$250.00 plant expansion and modification fee for customers whose sewage is not treated by the City of Cayce, and a \$750.00 plant expansion and modification fee for customers whose sewage is treated by the City of Cayce. Midlands currently charges a \$20.00 new customer set-up fee and a \$3.00 fee for notice of disconnection.

4. The Company's proposed rates would increase the monthly residential and apartment sewer charge to \$23.00, would charge mobile home customers \$19.50 per month, and would increase the

2. Under its presently approved rate schedule, the Company charges both residential and mobile home customers \$17.00 per month.

monthly commercial sewer charge to \$23.00 per single family equivalent. Company witness Parnell testified that the proposed mobile home rate was based on actual flow data.

5. The Company's proposed rates include a \$350.00 non-recurring sewer service connection tap fee per single-family equivalent. According to witness Parnell, the proposed \$100 increase in the Company's tap fee is necessary for the Company to recoup its \$152,000 investment in force mains, sewer lines, pumps, and other apparatus to interconnect with the City of Cayce and to recover its labor cost associated with physically making the tap. Parnell testified Midlands has an average expense of \$100 for labor for each new tap. Additionally, Midlands proposes to increase its new customer set-up charge to \$25.00, to increase its disconnection notice fee to \$4.00, to charge \$20.00 for checks returned for insufficient funds, and to charge 1½% of a customer's unpaid balance remaining 25 days after the billing date. Hearing Exhibit 6.

6. Midlands asserts its requested rate increase is necessary because on December 1, 1990, it lost approximately 457 residential customers and Crane Creek Elementary School which had a single family equivalent of 30.³ Midlands contends the loss of these customers reduced its operating revenues, on an annualized basis, by \$99,000. Parnell testimony. Additionally, the Company explains that its requested rate increase is necessary because of its

3. As fully later explained in this Order, the City of Columbia condemned the sewerage systems used by these customers.

increased expenses and the need for capital improvements.

7. J. W. Hendrix, the owner of three mobile home parks and a customer of Midlands, asked the Commission to keep the cost of sewer service low. Hendrix testified that residents in his mobile home parks have small or fixed incomes.

8. Staff witness Creech testified that the Commission had received approximately 21 letters of protest from Midlands' customers. Creech testified that most of these letters protested the proposed rate increase. Creech testified that one petition contained approximately 60 signatures.

9. The Company proposed that the appropriate test year upon which to consider its requested increase is the twelve month period ending June 30, 1990. Application.

10. Under its presently approved rates, the Staff states that Midlands operating revenues for the test year, after accounting and pro forma adjustments, were \$361,300. Hearing Exhibit 5.⁴ The Consumer Advocate argued that an additional \$287,000 should be amortized and included in the Company's operating revenues.

The facts pertaining to the \$287,000 are not in dispute. The City of Columbia (the City) condemned Midlands' sewer systems for the Lincolnshire and Washington Heights subdivisions in order to tie these systems into an interceptor line constructed under a federal grant. Both Midlands and the South Carolina Department of

4. At the hearing, Company witness Hendrix testified he agreed with all of the Staff's proposed adjustments. Accordingly, this Order will only address differences between that of Staff and the Consumer Advocate.

Health and Environmental Control (DHEC) contested the taking of these systems without compensation. The South Carolina Supreme Court ordered the City to pay Midlands due compensation. A jury awarded Midlands \$390,000. The City appealed this jury award. Ultimately, the Company and the City agreed on a settlement of \$335,000. In May 1990, the City paid Midlands this settlement amount. Parnell's testimony; Miller's testimony.

According to Company witness Hendrix, Midlands recognized \$287,000 as gain from the condemnation award. Hendrix explained that the Company elected not to recognize this gain and, instead, reinvested the gain in the construction of the Six Mile Creek drainage basin facilities. Hendrix testified that this accounting treatment of the \$287,000 gain not only saved the ratepayers from \$110,000 of tax liability but also allowed Midlands to construct the Six Mile Creek Sewer System without having to obtain financing and the associated interest expense. Finally, Hendrix stated that the reinvestment of the gain lowered the depreciable basis of the new sewage system, thereby allowing the Company a larger profit.

Consumer Advocate witness Miller testified that while the Company's treatment of the gain was appropriate for tax purposes, it was his opinion that for ratemaking purposes, the gain from the condemned property should be recognized as income and amortized as revenue over a ten year period since this is consistent with the amortization period that the Commission uses in writing-off the undepreciated costs of abandoned utility plants. The Consumer Advocate argued that this treatment would be consistent with the

Duke Power Company Order No. 83-302-E.

Staff witness Hulion testified he agreed with the Company's reinvestment of the gain from the condemnation of its systems. Hulion testified that the Company's treatment of its gain provided the best benefit to the ratepayers.

On cross-examination Hulion was asked if the Commission should treat Midland's gain as it did the gain received by Duke Power Company in the sale of one of its nuclear units in Duke Power Co., Order No. 84-108, in Docket No. 83-302-E (Feb. 22, 1984). Hulion explained that because Midlands reinvested its gain for like-kind property, the Commission should not treat Midlands' gain like abandoned property as it did in the Duke case. Finally, Hulion testified that if the Commission adopted the Consumer Advocate's proposal of amortizing the gain as revenue over 10 years, the Commission would also have to assume that Midlands borrowed money to construct the Six Mile Creek drainage basin facilities. Hulion explained that in making this assumption Midlands' ratepayers would be imputed the interest expense and the full depreciation expense on the sewage project.

11. Under Midlands' presently approved rates, Staff concluded the Company's operating expenses for the test year, after accounting and pro forma adjustments, were \$335,079. Hearing Exhibit. 5. Staff made this conclusion after making the following

adjustments to the Company's expense accounts:⁵

(A) Rate Case Expenses

Staff reviewed the actual bills totaling \$3,477 which listed Midlands' expenses for the current rate case until March 31, 1991. Staff accepted these bills and proposed to amortize the rate case expenses over a three (3) year period. The Company accepted this proposal. At the hearing, while expressing an objection to the Company's use of estimated rate case expenses and the Company's inclusion of expenses from a prior rate case, the Consumer Advocate agreed with the Staff's proposed adjustment to rate case expenses.

(B) Sublet Treatment Expense

Staff proposed to adjust the Company's per book expenses for the increased cost of sewer treatment services imposed by the City of Cayce due to the addition of 128 new mobile home customers at the end of the test year. Staff determined this expense by multiplying the City of Cayce's current charge of \$0.79 per thousand gallons of wastewater by the approximate wastewater flow indicated on Midland's response to Consumer Advocate Interrogatory 1-1.⁶ Hearing Exhibit 7. Staff's proposal increased the Company's operating and maintenance expenses by \$11,260.

While the Consumer Advocate's witness Miller agreed that

5. Again, the Commission notes that because the Company agreed that Staff's adjustments were proper, it has addressed only those adjustments which differ from the Consumer Advocate's adjustments.

6. Midlands based its adjustment on an estimate charge of \$0.81 per thousand gallons of wastewater. Midlands now agrees with Staff's use of the actual charge of \$0.79 per thousand gallons of wastewater.

Midlands had acquired new mobile home customers and that it was paying the City of Cayce for treatment at a rate of \$0.79 per gallon of wastewater treated, Miller stated that the Company's estimated amount of flow was not known and measurable for ratemaking purposes. Accordingly, the Consumer Advocate argued that the Commission should disallow this adjustment.

(C) Property Tax Expense

Staff proposed to adjust Midlands' property taxes by \$7,304 to reflect an increase in its property tax assessments. Although he had a copy of the actual bill, Company witness Hendrix admitted he did not know if the bill had been paid. The Consumer Advocate argued that the Commission should disallow this expense because the Company did not present any evidence which indicated that these taxes had actually been paid.

(D) Interest Expense

The Company's books indicated it paid interest expense for the test year of \$41,115.56. The Consumer Advocate argued that because the Company's outstanding loans were only for \$301,000, the Commission should annualize the Company's interest expense.

Staff witness Hulton testified he audited the Company's books and determined that Midlands had outstanding notes for vehicles and building improvements. Hulton also testified that it would be inappropriate to synchronize the interest due because Midlands operates on a cash basis and Midlands paid \$41,115.56 in interest during the test year.

(E) Salary Expense

The Consumer Advocate witness Miller argued that while no specific employee's salary was excessive, the Company's total salary expense of \$111,893 was excessive.⁷ The Consumer Advocate also argued that it was possible that the general manager, maintenance supervisor, and engineer may have overlapping responsibilities.⁸ Finally, the Consumer Advocate objected to the 10% requested increase in the salary of the General Manager.

Midlands witness Parnell, the General Manager, testified that he and the Company engineer spend 75% of their time on Midlands' work. Parnell also testified that the bookkeeper spends almost all of her time on work for Midlands. Parnell testified that in addition to keeping the Company's books, the bookkeeper also collected the Company's bad debts and attended the magistrate's hearings. Parnell testified that the maintenance supervisor takes care of all of the wastewater plants. Parnell further testified that in his small company all of the employees "pitch in when something comes up." Parnell also testified that he had competent

7. The Company pays the following salaries:

General Manager	\$35,180
Maintenance Supervisor	30,362
Engineer	14,566
Bookkeeper	19,441
2 Part-time Employees	12,344
(Billing Clerk and Computer Operator)	<u>111,893</u>

8. The Company hired a licensed professional engineer in February 1990.

employees working for him and that they needed good salaries. Finally, Parnell testified that he receives a \$39,000 salary from Bush River Utilities, Inc. but only spends 25% of his time on work for that company.

(F) Non-Allowable Operating Expenses

The Consumer Advocate objects to including the Company's political and charitable contributions, travel, and entertainment expenses in Midlands' operating expenses for ratemaking purposes. Staff had proposed that these expenses be deleted from the Company's operating expenses. The Company agreed to Staff's adjustments at the hearing.

12. Staff found that, after accounting and pro forma adjustments to its operating revenues and expenses, Midlands' net income for return was \$26,221 and its present operating margin was -4.12%. Hearing Exhibit 5.

13. Staff concluded that the Company's proposed increase in its rates and charges would increase its operating margin to 15.35%. Hearing Exhibit 5.

CONCLUSIONS OF LAW

1. The Company is a sewer utility providing sewer service in its service area within South Carolina. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. §58-5-10, et seq. (1976).

2. A fundamental principle of the ratemaking process is the establishment of a historical test year as the basis for calculating a utility's operating revenues and expenses and,

consequently, the validity of the utility's requested rate increase. While the Commission considers a utility's proposed rate increase based upon occurrences within the test year, the Commission will also consider adjustments for any known and measurable out-of-test-year changes in expenses, revenues, and investments and will also consider adjustments for any unusual situations which occurred in the test year. See, Parker v. South Carolina Public Service Commission, 280 S.C. 310, 313 S.E.2d 290 (1984), citing City of Pittsburgh v. Pennsylvania Public Utility Commission, 187 Pa.Super. 341, 144 A.2d 648 (1958); Southern Bell v. The Public Service Commission, 270 S.C. 590, 244 S.E.2d 278 (1978).

In light of the fact that the Company proposes that the twelve-month period ending June 30, 1990, is the appropriate test year and Staff has audited the Company's books for that period, the Commission concludes that the twelve-month period ending June 30, 1990, is the appropriate test year for the purposes of this rate request.

3. The Commission concludes that the Company's reinvestment of its \$287,000 gain into the construction of the Six Mile Creek Sewage Basin was the most appropriate treatment of the gain for ratemaking purposes and provided its ratepayers with the most benefit from the gain. The Commission finds that this reinvestment not only allowed the Company, and ultimately the ratepayers, from incurring tax liability, but also provided the Company with a ready source of interest-free capital with which to invest in like-kind

property. Moreover, the reinvestment reduced the depreciable value of the Six Mile Creek drainage basin facilities and, thereby, reduced the depreciation expense for the ratepayers. Finally, the Commission notes that, unlike Duke Power Company's sale of one of its nuclear units, Midlands timely reinvested its gain in like-kind property. Accordingly, the Commission finds the revenue treatment in the Duke Power Company case cited by the Consumer Advocate inapplicable in this matter. Therefore, the Commission finds that the Company's operating revenues after accounting and pro forma adjustments, were \$361,300.

4. The Commission also concludes that Staff's adjustments to the Company's operating expenses are appropriate. The Commission makes this conclusion based upon the following legal principles and reasoning:

(A) Rate Case Expenses

As agreed to by all parties at the hearing, the Commission accepts Staff's proposal to amortize the Company's actual rate case expenses of \$3,477 over a three year period. Additionally, the Commission disallows any expenses remaining on the Company's books from the previous rate case.

(B) Sublet Treatment Expense

The Commission accepts Staff's proposal to adjust the Company's operating expense for the increased cost of sewer treatment by the City of Cayce by \$11,260 due to addition of 128 mobile home customers. The Commission finds that, contrary to the Consumer Advocate's argument, the sublet treatment expense is known

and measurable and, therefore, appropriate for ratemaking purposes. Id. The Commission finds that the charge of \$0.79 per thousand gallons of wastewater is the established contract rate. The Commission takes judicial notice of the DHEC Guidelines for Unit Contributory Loadings to Wastewater Treatment Facilities average daily flow of 100 gallons per person per day with 3 persons per mobile home and thereby finds Midlands' approximate flow rate accurate. 26 S.C. Regs. 103-870(C)(1976).

(C) Property Tax Expense

The Commission accepts Staff's proposal to adjust Midlands' property taxes by \$7,304 to reflect the increase in its property tax assessments. Although it is not clear if this increased tax bill had been paid by the time of the hearing, review of the bill indicates \$7,304 was payable for tax year 1990 and was due by January 15, 1991. Hearing Exhibit 7. This increased tax assessment is a known, measurable, and a reoccurring expense, even if actually due after the test year. Id. Accordingly, whether or not the bill was actually paid during the test year is irrelevant.

(D) Interest Expense

The Commission denies the Consumer Advocate's proposal to synchronize the interest paid by Midlands during the test year. Midlands operates on a cash basis; the Company paid \$41,115.56 in interest during the test year. The Commission concludes this entire expense should be included in the Company's operating expenses of ratemaking purposes. Id.

(E) Salary Expense

The Commission concludes that the salaries paid by Midlands are not excessive. The Commission finds that the salaries of specific personnel are fair and reasonable, particularly in light of the fact that the four full-time personnel devote all or a substantial portion of their time to Midlands.⁹ The Commission further finds that while each of the employees has certain duties, at times it is likely that within a small utility company these responsibilities may overlap. Finally, the Commission find that a 10% increase in the salary of the General Manager, Charles Parnell, from \$31,460 to \$35,180 is reasonable. Testimony in the record indicates that Bush River Utility, a sewer utility with only one treatment plant, pays Mr. Parnell a \$39,000 annual salary despite the fact that Mr. Parnell spends only 25% of his time on work for that utility. Accordingly, the Commission denies the Consumer Advocate's proposed adjustment to the Company's salary expense.

(F) Non-Allowable Expenses

As agreed to by all parties, the Commission accepts Staff's proposal to disallow Midlands' political and charitable contributions, travel, and entertainment expenses. Clearly, these expenses do not benefit the ratepayer and are inappropriate for ratemaking purposes.

9. The Commission notes this is not a situation where a regulated utility and non-regulated business allocate the salary of personnel among themselves.

5. The Commission concludes that the Company's appropriate operating expenses for the test year, after accounting and pro forma adjustments, were \$335,079.

6. Based on the above determinations concerning the accounting and pro forma adjustments to the Company's revenues and expenses, the Commission concludes that the Company's net income for return was as follows:

TABLE A
NET INCOME FOR RETURN

BEFORE RATE INCREASE

Operating Revenues	\$361,300
Operating Expenses	335,079
Net Operating Income	<u>26,221</u>
Customer Growth	0
Net Income for Return	<u>26,221</u>

7. Under the guidelines established in the decisions of Bluefield Waterworks and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in Hope, a utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility and . . . that are adequate under efficient and economical

management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

8. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rates of a public utility. For a sewer utility whose rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the net operating income for return by the total operating revenues of the utility. This method was recognized as an acceptable guide for ratemaking purposes in Patton v. South Carolina Public Service Commission, 280 S.C. 288, 312 S.E.2d 257 (1984).

The Commission concludes that use of the operating margin is appropriate in this case. Based on the Company's gross revenues for the test year, after accounting and pro forma adjustments under the presently approved schedules, the Company's operating expenses for the test year after accounting and pro forma adjustments, and customer growth, the Company's present operating margin is as follows:

TABLE B
OPERATING MARGIN

BEFORE RATE INCREASE

Operating Revenues	\$361,300
Operating Expenses	<u>335,079</u>
Net Operating Income	26,221
Customer Growth	<u>0</u>
Total Income for Return	26,221
Operating Margin (After Interest)	(4.12%)

9. The Commission is mindful of the standards delineated in the Bluefield decision and of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue requirements of the Company but also the proposed price for the sewer service, the quality of the sewer service, and the effect of the proposed rates upon the consumer. See, Seabrook Island Property Owners Ass. v. S.C. Public Service Commission, ___S.C.___, 401 SE2d 627 (1991). S.C. Code Ann. §58-5-290 (1976).

10. The three fundamental criteria of a sound rate structure have been characterized as follows:

... (a) the revenue-requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified

in view of the relationships between costs incurred and benefits received.

Bonbright, Principles of Public Utility Rates
(1961), p.292.

11. Based on the considerations enunciated in Bluefield and Seabrook Island and on the fundamental criteria of a sound rate structure as stated in Principles of Public Utility Rates, the Commission determines that the Company should have the opportunity to earn a 12.96% operating margin. In order to have a reasonable opportunity to earn a 12.96% operating margin, the Company will need to produce \$453,822 in annual operating revenues.

TABLE C
OPERATING MARGIN

AFTER RATE INCREASE

Operating Revenues	\$453,822
Operating Expenses	353,889
Net Operating Income	99,933
Customer Growth	-0-
Total Income for Return	<u>99,933</u>
Operating Margin (After Interest)	12.96%

12. The Commission has carefully considered the concerns of the Company's customer. The Commission recognizes that a \$6.00 monthly increase for residential and commercial sewer service constitutes a 35% increase in rates and that a \$2.50 monthly increase for mobile home customers constitutes a 14.7% increase in rates. The Commission further recognizes that it has received several complaints from the Company's customers opposing the proposed increase in rates. The Commission notes that Mr. J.W.

Hendrix appeared at the hearing and specifically asked that the cost of sewer service remain low. He stated that many residents living in his mobile home park had small incomes.

13. On the other hand, the Commission recognizes that the Company has lost two subdivisions of customers and an elementary school which had a single family equivalent of thirty (30). Moreover, the Commission notes that the Company has invested a large amount of capital in the construction of the Six Mile Creek drainage basin facilities. Further, the Commission is cognizant of the fact that basic expenses have increased over time as a result of inflation. Finally, the Commission recognizes that Company's ratepayers have not had their rates increased since early 1989.

14. The Commission concludes that while an increase in rates is necessary, the proposed increase is inappropriate. Accordingly, the Commission will allow the Company to increase its residential and commercial monthly sewer charge rate to \$22.00. The Commission denies the proposed increase in its mobile home rates. Instead, the Commission will reduce the mobile home rate to \$16.50 per month. The Commission notes that, according to the DHEC Guidelines for Unit Contributory Loading to Wastewater Treatment Facilities, mobile homes have 75% of the contributory factor of a single family residence. While the Commission recognizes that the Company's proposed mobile home rate is based on actual flow data, the Commission finds it the better practice to rely on the DHEC Guidelines. The Commission notes that the Company's actual flow data will vary on the basis of the residents living in the mobile

home parks and that the DHEC Guidelines provide a better estimate of use. Therefore, the Commission approves a monthly charge of 75% of the approved single family residence charge, or \$16.50, for mobile homes.

15. The Commission denies the Company's proposed increase in its tap fee on the ground that Midlands has failed to justify the increase. The Commission finds that the Company is currently collecting a \$250 tap fee and has not indicated why an increase in that fee is necessary. Although Midlands states that its average labor cost per tap is \$100, the Company does not state that the \$100 cost is an increase from the labor cost it has been recovering through its present tap fee. Moreover, the Commission finds that the Company should not be allowed to recover its investment in interconnection lines through tap fees. While the tap fee assists the utility in recovering "a portion of plant capacity which will be used to provide service to the new customer," 26 S.C. Reg. 103-502.11 (Supp. 1990), the fee does not allow a utility to recover its interconnection costs with a treatment plant. Those costs are properly recovered from customers through rates.

16. The Commission approves the Company's requested increase in its new customer set-up charge from \$20.00 to \$25.00. Additionally, the Commission approves the Company's requested increase in its disconnection notice from \$3.00 to \$4.00. Finally, the Commission approves the Company's 1½% late payment charge. 26

S.C. Reg. 103-532.2 (Supp. 1990).¹⁰

17. Based on the above considerations and reasoning, the Commission hereby approves the proposed rates and charges as stated in this Order as a just and reasonable manner in which to produce and distribute the increased revenues which are necessary to provide the opportunity to earn the approved operating margin.

18. Accordingly, it is ordered that the rates and charges attached on Appendix A are approved for service rendered on or after the date of this Order. The schedule is hereby deemed to be filed with the Commission pursuant to S.C. Code Ann. §58-5-240 (1976).

19. It is ordered that should the approved schedule not be placed in effect until three (3) months after the effective date of this Order, the approved schedule shall not be charged without written permission of the Commission.

20. It is further ordered that the Company maintain its books and records for water operations in accordance with the NARUC Uniform System of Accounts for Class A and B Sewer Utilities, as adopted by this Commission.

10. The Commission has made no determination in regard to Midlands' proposed charge for returned checks since this charge is governed by South Carolina statute.

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21. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)

MIDLANDS UTILITY INC.

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Appendix A

RATES AND CHARGES

<u>Residential</u>		
Permanent Base	-	\$ 22.00
Apartment (per unit)	-	\$ 22.00
Mobile Base	-	\$ 16.50
<u>Commercial</u>		
Convenience Store	-	\$ 22.00
Other	-	\$ 22.00 per SFE
<u>Tap Fees*</u>		
Residential	-	\$250.00 per SFE
Commercial	-	\$250.00 per SFE
<u>Plant Expansion and Modification</u>		
<u>Fees For Customer's Sewer Not</u>		
<u>Treated by City of Cayce*</u>		
Residential	-	\$250.00 per SFE
Commercial	-	\$250.00 per SFE
<u>Plant Expansion and Modification</u>		
<u>Fees For Customer's Sewer</u>		
<u>Treated by City of Cayce</u>		
Residential	-	\$750.00 per SFE
Commercial	-	\$750.00 per SFE
<u>Other Charges</u>		
New Customer Set-Up	-	\$ 25.00
Disconnect Notice	-	\$ 4.00

* Such applicable fee will be increased to reflect the full gross-up method for collecting the impact of taxes and fees upon the amount collected as set forth in Order No. 88-237, effective on March 18, 1988.